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SUBJECT: HEAD OF DUBAI FINANCIAL MARKET OFFERS COMMENTS ON GULF STOCK MARKET WOES

REF: A. A) ABU DHABI 1927

[¶](#)B. B) ABU DHABI 975

CLASSIFIED BY: Jason Davis, Consul General, Dubai , UAE.

REASON: 1.4 (d)

[¶](#)1. (C) Summary: Dubai Financial Market (DFM) Director General Eissa Kazem told CG May 9 that "decreased liquidity due to IPO's and new stock offerings" was initially the main factor behind the Dubai market's slump (of more than 50 percent) in recent months. DFM's decline was then exacerbated by a subsequent slump in stock prices in Saudi Arabia, both because market sentiment was affected, and because margin calls by Saudi banks led Saudis to sell their Kuwaiti, Egyptian, and UAE stocks to cover their losses in Saudi Arabia. Kazim could not say how much of DFM's recent losses were due to margin calls by UAE banks (a factor cited frequently among Dubai contacts); he said Iranian investors played almost no role in the DFM. End Summary.

[¶](#)2. (SBU) During a May 9 farewell call by CG, DFM Director General Eissa Kazem commented extensively on the severe slump -- some would say crash -- that has affected DFM and other stock market in the region in recent months. (The Dubai market is down some 55% from its peak last year, compared to decreases for 40% for the Abu Dhabi market, 35% in Saudi Arabia, and 15% in Kuwait).

Decreased Liquidity

[¶](#)3. (SBU) The current trouble was rooted in a "major reduction of liquidity," to the tune of 20 billion dirhams (over 5 billion dollars) over the past half year or so. As Kazem sees it, the DFM began to correct itself in November and December of last year, at a time when the Saudi market was still booming. Then, at a critical moment in January, there were two huge IPOs -- for the new UAE telecom "du" (UAED 2.5 billion) and for another Dubai company, Tamweel (UAED 2 billion). Because the IPOs were massively oversubscribed, the effect on liquidity was even greater than the USD 1 billion involved. With so much liquidity sucked up by the IPOs, the market fell, and a "herd mentality" began to prevail. Before the situation could stabilize the Saudi market began to sink. The situation there was exacerbated, Kazem said, by a change in rules by "the Saudi SEC" to limit daily losses to 5% (from the previous 10%); as a result, for investors trying to sell Saudi shares, there were "literally no buyers, at any price, for days at a time." Saudi investors responding to margin calls suddenly "remembered" their investments in Kuwait, Egypt, and Dubai, and began selling those to pay their banks.

Iranians Not A Factor

¶4. (C) Kazim thought it likely that the Dubai market had "bottomed out" or would do so shortly, but speculated that the Saudi market "likely has a ways to go." He said he had no specific information about how much of Dubai's slump was related to local investors being forced by margin calls to repeatedly sell some stocks at a loss in order to preserve at least a fraction of their portfolios (a factor mentioned frequently by contacts in Dubai), adding that "only the banks would have that information." Asked whether Iranian investors or funds played a significant role in the market, he said "almost none -- most of the players are GCC nationals, though Indian nationals resident in Dubai are also playing a significant role."

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